

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-02 RSC-01 PRS-01 SP-02 SS-15

USIA-15 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04

OPIC-06 CIEP-02 LAB-04 SIL-01 OMB-01 /097 W

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P R 132300Z JAN 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 7270

INFO COMUSJAPAN FUCHU JAPAN

CINCPAC HONOLULU HAWAII

UNCLAS SECTION 1 OF 2 TOKYO 0460

PASS COMMERCE, DOD, TREASURY AND FEDERAL RESERVE

E. I. 11652: N/A

TAGS: EFIN, MARR, JA

SUBJECT: CABINET APPROVES JFY 75 BUDGET

1. SUMMARY: CABINET APPROVED MODERATELY RESTRICTIVE JFY 75 BUDGET ON JAN 11. GENERAL ACCOUNT EXPENDITURES TOTAL 21,289 BIL YEN (EQUIVALENT TO \$71 BIL), REPRESENTING INCREASE OF 24.5 PERCENT OVER INITIAL FY 74 BUDGET. THIS IS THE SECOND HIGHEST PERCENT INCREASE FOLLOWING THE GROWTH OF 24.6 PERCENT REGISTERED IN JFY 73 GENERAL ACCOUNT BUDGET. HOWEVER, MUCH OF INCREASE IN FJY 75 BUDGET REFLECTS HIGHER SALARIES AND RICE SUBSIDY PRICE ALREADY VOTED LATE LAST YEAR. INCREASE INITIAL JFY 75 BUDGET OVER REVISED JFY 74 BUDGET ONLY 10.9 PERCENT AS AGAINST 12.0 PERCENT FOR SAME COMPARISON JFY 74. IN SPITE OF LARGE BUDGET SIZE, MOF EXPLAINED JFY 75 BUDGET WILL HAVE SMALL IMPACT IN STIMULATING INFLATION FURTHER. JFY 75 BUDGET REFLECTS GOJ INTENTION TO PUT EMPHASIS ON SOCIAL WELFARE AND EDUCATION. SOCIAL SECURITY EXPENDITURES UP SHARPLY BY 35.8 PERCENT WHILE PUBLIC WORKS OUTLAYS UP ONLY BY 2.4 PERCENT. INCREASE  
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IN FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) ALSO KEPT

RESTRICTIVE WITH 17.5 PERCENT INCREASE OVER INITIAL JFY 74 AMOUNT TO 9,310 BIL YEN. RATHER SMALL PERSONAL INCOME TAX CUT OF 248 BIL YEN, APPROVED BY CABINET, WILL ASSIST DEMAND RESTRAINT POLICY. BUDGET PLANNED ON BASIS OF ECONOMIC FORECAST FOR JFY 75 RELEASED BY EPA DEC 28, 1974, WHICH PREDICTED REAL GROWTH OF 3.4 PERCENT JFY 75, INCREASED TRADE SURPLUS AND SMALLER NET OUTFLOW OF LONG-TERM CAPITAL. END SUMMARY.

2. CABINET GAVE FINAL APPROVAL JAN 11 TO A BUDGET WHICH STRESSES PROMOTION OF SOCIAL WELFARE AND FISCAL MODERATION. ALTHOUGH MAGNITUDE OF INCREASE IN GENERAL BUDGET FOR JFY 1975 (24.5 PERCENT LARGER THAN INITIAL GENERAL ACCOUNT BUDGET FOR CURRENT FISCAL YEAR) MAKES IT SECOND LARGEST IN JAPAN'S HISTORY, MUCH OF THE INCREASE IS NEEDED SIMPLY TO ADJUST FOR PAST INFLATION (GOVERNMENT SALARY HIKES AND HIGHER PRICE PAID TO FARMERS FOR RICE VOTED IN JFY 74 SUPPLEMENTARY BUDGET). OVERALL FISCAL IMPACT CHARACTERIZED BY ONE SOURCE AS "NEUTRAL". PRINCIPAL FEATURES OF THE NEW BUDGET ARE A MAJOR INCREASE IN ANNUITIES FOR THE AGED, ALLOWANCES FOR THE PHYSICALLY HANDICAPPED, AND VIRTUALLY NO INCREASE IN ALLOCATIONS FOR PUBLIC WORKS. HOWEVER, MAJOR CHANGE FROM INITIAL DRAFT BUDGET FOR 1975 IS THE ADDITION OF 169.6 MIL YEN TO FISCAL LOAN AND INVESTMENT PROGRAM; RESULT IS THAT FLIP INCREASE OVER DRAFT BUDGET FOR JFY 1974 IS 17.5 PERCENT RATHER THAN 15.4 PERCENT PROPOSED BY MOF AND REPORTED TOKYO 17.

3. JFY 75 BUDGET BEING CHARACTERIZED AS ANTI-INFLATION ORIENTED, WITH YEAR-TO-YEAR GENERAL ACCOUNT OUTLAY GROWING BY 24.5 PERCENT, THE SECOND HIGHEST AFTER THE WAR. AS MEASURED AGAINST REVISED JSZ 74 BUDGET, INCLUDING SUPPLEMENTAL (REPORTED TOKYO A-744 DATED 12/18/74), INCREASE IS ONLY 10.9 PERCENT WHICH SUBSTANTIALLY LOWER THAN 12.0 PERCENT COMPARISONS FOR JFY 1974 AND FOR PRIOR FISCAL YEARS. SPENDING FOR JFY 75 FLIP TO TOTAL 9,310 BIL YEN, REPRESENTING 17.5 PERCENT INCREASE OVER INITIAL JFY 74 FLIP BUDGET.

4. TAZ REVENUES TO INCREASE 26.0 PERCENT, WHICH SOME-  
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WHAT LARGER THAN INCREASE IN TOTAL EXPENDITURE. THIS INCREASE PROJECTED WITH TAX REFORM PROPOSAL FOR JFY 75 FEATURING SMALL PERSONAL INCOME TAX CUTS OF 248 BIL YEN FOLLOWING THE BIGGEST INCOME TAX CUTS EVER OF 2,000 BIL YEN IN FY 74. REFORM PROPOSAL CALLS FOR HIGHER TAX RATES ON LIQUOR AND INCOMES EARNED THROUGH INTERESTS AND DIVIDENDS AND LOWER TAX RATES ON RECEIPTS FROM DONATIONS AND INHERITANCE AND ADMISSION FOR MOVIES. DEFICIT

FINANCING THROUGH BOND SALES IS ESTIMATED AT 2,000 BIL  
YEN, OR 9.4 PERCENT OF TOTAL RECEIPTS, MUCH SMALLER THAN  
12.6 PERCENT IN INITIAL JFY 74 BUDGET. THIS IS THE  
FIRST TIME IN FOUR YEARS THAT BOND SALES REPRESENT LESS  
THAN 10 PERCENT OF TOTAL REVENUE IN THE INITIAL BUDGET.

5. GENERAL ACCOUNT BUDGET FOR JFY 75 AS FOLLOWS:

	JFY 75 BIL YEN	PERCENT INCREASE	
		JFY 74/73	JFY 75/74
(IN TERMS OF INITIAL BUDGETS)			
REVENUES			
TAXES AND STAMP			
RECEIPTS	17,340	24.2	26.0
OTHER	1,251	11.8	73.3
GOVERNMENT BONDS	2,000	MINUS 7.7	MINUS 7.4
SURPLUS FROM FY 74	698	107.3	53.2
TOTAL	21,289	19.7	24.5
EXPENDITURES			
SOCIAL SECURITY & OTHER			
WELFARE TRANSFER			
PAYMENTS	3,927	36.7	35.8
CULTURE, EDUCATION			
AND SCIENCE	2,640	25.0	34.5
GRANTS TO LOCAL GOVTS	4,409	21.6	30.3
PUBLIC WORKS	2,910	0	2.4
PENSIONS	756	23.7	29.4
NATIONAL DEFENSE	1,327	16.8	21.4
FOREIGN ECONOMIC			
COOPERATION	177	28.9	5.4
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ALL OTHER	5,144	21.4	23.1
TOTAL	21,289	19.7	24.5

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ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-02 RSC-01 PRS-01 SP-02 SS-15

USIA-15 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04

OPIC-06 CIEP-02 LAB-04 SIL-01 OMB-01 /097 W

----- 016086

P R 132300Z JAN 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 7271

INFO COMUSJAPAN FUCHU JAPAN

CINCPAC HONOLULU HAWAII

UNCLAS SECTION 2 OF 2 TOKYO 0460

PASS COMMERCE: DOD, TREASURY AND FEDERAL RESERVE

6. DEFENSE EXPENDITURES TO RISE BY SMALLER (21.4) PERCENT THAN TOTAL GENERAL ACCOUNT SPENDING (UP 24.5 PERCENT). TOTAL NATIONAL DEFENSE BUDGET OF 1,327 BIL YEN EQUIVALENT TO \$4.4 BIL. MAJOR PORTION OF DEFENSE BUDGET INCREASE WILL BE NEEDED FOR HIGHER PERSONNEL EXPENSES AND HIGHER COSTS OF EQUIPMENT. NEWS REPRTS INDICATE CONCERN BY DEFENSE AGENCY OFFICIALS THAT BUDGET WILL MAKE ACHIEVEMENT OF THE FOURTH FIVE-YEAR DEFENSE PLAN QUITE DIFFICULT. EMBASSY WILL PROVIDE DETAILS SEPARATELY.

7. PUBLIC WORKS BUDGET SHOWS ONLY VERY SMALL INCREASE OF 2.4 PERCENT OVER INITIAL BUDGET FOR JFY 74. THUS PUBLIC WORKS SPENDING IN NOMINAL TERMS VIRTUALLY AT THE LEVEL OF TWO YEARS AGO AND IN REAL TERMS HAS DECLINED SUBSTANTIALLY. ROAD CONSTRUCTION FUNDS CUT 7.1 PERCENT IMPLYING A VERY SHARP REDUCTION IN REAL TERMS. BUDGET FOR OFFICIAL DEVELOPMENT ASSISTANCE WILL RISE BY ONLY 5.4 PERCENT TO 177 BIL YEN. THIS CONTRASTS WITH LARGE 28.9 PERCENT INCREASE CONTAINED IN LAST YEAR'S BUDGET. SOCIAL WELFARE BUDGET ITEMS RECEIVED LARGEST INCREASES TO 3,927 BIL YEN. UNCLASSIFIED

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SOCIAL SECUIITY EXPENDITURES WILL RISE BY 35.8 PERCENT OVER THE INITIAL JFY 1974 BUDGET; WELFARE ANNUITIES FOR THE AGED WILL BE INCREASED BY 60 PERCENT AND MILITARY PENSIONS WILL BE RAISED BY 38.1 PERCENT.

8. BASIS FOR BUDGET PLANNING WAS EPA ECONOMIC FORECAST

FOR JFY 1975 RELEASED DEC 28, 1974. GNP PROJECTED TO RISE BY 4.3 PERCENT IN REAL AND 15.9 PERCENT IN NOMINAL TERMS IN JFY 75, IN COMPARISON WITH JFY 74 DROP IN REAL GNP OF 1.7 PERCENT AND RAPID RISE IN NOMINAL GNP OF 18.7 PERCENT. INFLATION RATE PROJECTED TO DROP FROM 24.6 PERCENT IN WPI TO 7.9 PERCENT JFY 75, AND FROM 22.0 PERCENT TO 11.8 PERCENT FOR CPI. FORECAST INDICATES "STAGNANT" PERSONAL CONSUMPTION EXPENDITURE GROWTH (ONLY 18.4 PERCENT NOMINAL GROWTH FOR JFY 75 IN CONTRAST TO 23.0 PERCENT NOMINAL INCREASE DURING JFY 74). RECOVERY IN RESIDENTIAL CONSTRUCTION AND PLANT AND EQUIPMENT INVESTMENT PREDICTED, WITH RESIDENTIAL CONSTRUCTION UP BY 19.6 PERCENT AND PLANT AND EQUIPMENT UP BY 14.0 PERCENT IN CONTRAST TO RESPECTIVE INCREASES OF 3.7 PERCENT AND 9.2 PERCENT IN JFY 74. FOLLOWING ARE REVISED EPA PROJECTIONS IN TRILLION YEN, WITH ASSOCIATED PERCENT INCREASES IN PARENTHESES.

	FJY 74		JFY 75	
NOMINAL GNP	136.8	(18.7)	158.5	(15.9)
REAL GNP	(MINUS 1.7)			(4.3)
CONSUMPTION	72.9	(23.0)	86.3	(18.4)
RESIDENTIAL				
CONSTRUCTION	10.3	(.37)	12.2	(19.6)
PLANT & EQUIP.				
INVEST.	24.4	(9.2)	27.8	(14.0)
INVENTORY	3.6	(MINUS 10.2)	2.5	(MINUS 30.6)
INDUSTRIAL PROD.				
(1970-100)	125.3	(MINUS 4.8)	132.1	(5.4)
WPI (1970-100)	156.2	(24.6)	168.6	(7.9)
CPI (1970-100)	159.8	(22.0)	178.7	(11.8)

9. REGARDING BALANCE OF PAYMENT DEVELOPMENTS, CURRENT ACCOUNT PROJECTED BY EPA TO REGISTER \$1,700 MIL. DEFICIT IN JFY 75 AS COMPARED TO ESTIMATED \$2,500 MIL UNCLASSIFIED

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DEFICIT FOR CURRENT FISCAL YEAR. LARGE TRADE SURPLUS OF \$5,200 MIL PREDICTED FOR FY 75 VERSUS \$3,900 MIL IN FY 74. NET LONG-TERM CAPITAL OUTFLOWS ARE FORECAST AT \$2,200 MIL PREDICTED FOR FY 74. DEFICIT ON BASIC BALANCE PROJECTED AT \$3,900 MIL FOR FY 75 VERSUS \$5,500 MIL FOR FY 74. FOLLOWING IS BALANCE OF PAYMENTS FORECAST IN BIL DOLLARS.

	FY 74		FY 75	
EXPORTS	58.0		67.0	
IMPORTS	54.1		61.8	
TRADE BALANCE	3.9		5.2	
CURRENT ACCOUNT	MINUS 2.5		MINUS 1.7	
LONG-TERM CAPITAL	MINUS 3.0		MINUS 2.2	

BASIC BALANCE      MINUS 5.5   MINUS 3.9

10. COMMENT: THIS YEAR'S BUDGET MAKING PROCESS  
INVOLVED A VERY CONSIDERABLE AMOUNT OF NEGOTIATION TO  
RESOLVE INTERAGENCY DIFFERENCES IN PRIORITIES AND KEEP TOTAL  
EXPENDITURE INCREASE BELOW 25 PERCENT. IF PRIME OBJECTIVE  
IN FY 75 OF SUBSTANTIAL MODERATION IN WAGE/PRICE ADVANCE  
APPEARS WITHIN REACH, GOJ WILL PROBABLY EASE MONETARY POLICY  
AND COULD LOOSEN FISCAL POLICY BY SUPPLEMENTAL  
EXPENDITURE BUDGETS FOR "HIGH PRIORITY" PROJECTS.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, CABINET, GOVERNMENT EXPENDITURES, NEGOTIATIONS, APPROPRIATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 13 JAN 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Disposition History:** n/a  
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**Drafter:** n/a  
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**Executive Order:** N/A  
**Errors:** N/A  
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**Review Authority:** buchant0  
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**Review Transfer Date:**  
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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** CABINET APPROVES JFY 75 BUDGET  
**TAGS:** EFIN, MARR, JA  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006